

Views from the Desk

Investing in a More Complete Energy Picture

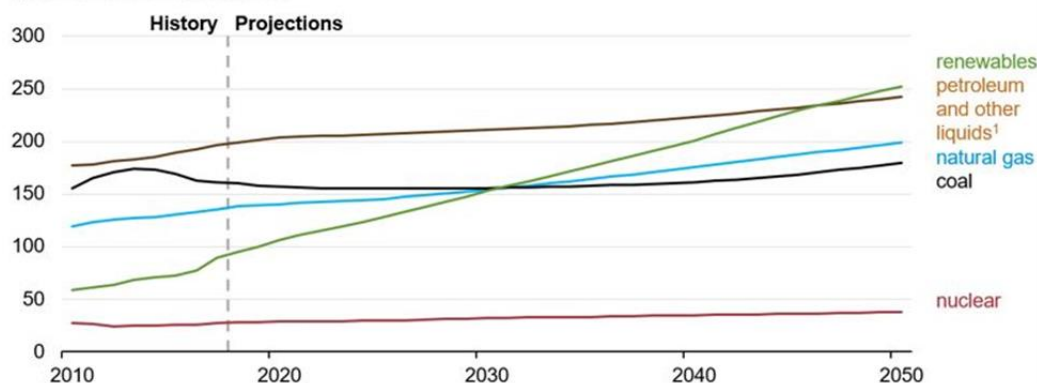
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- Clean energy has been an emerging investment theme and growing megatrend as clean energy mandates become more popular and mainstream and the companies who are exposed are benefitting from this evolving trend as it continues to gain traction.
- President Biden is placing a big focus on combating climate change and green initiatives. The Biden administration has some aggressive targets, with plans to make the U.S. net-zero emissions by 2050 and decarbonize the power sector by 2035.¹
- The U.S. is not alone: countries such as Germany, Sweden, and Denmark are making similar goals to move towards low-carbon energy sources. China, which is the world's largest carbon emitter has also committed to generating 35% of its electricity from renewables by 2030.²
- The U.S. has rejoined the Paris Climate Accord, which is an agreement within the United Nations on climate change mitigation, adaption and finance. While the global goals towards clean energy are ambitious and the future is indeed renewable-based energy, fossil fuels will still be relied on as a source of energy as the world transitions for traditional energy sources.
- In practice, many jobs, particularly in Canada are dependent on traditional fossil fuel, which means it will be difficult to quickly pivot into clean energy. In addition, as many of the clean energy technology are newer, there are costs involved, which will naturally decrease over time. Furthermore, it will take time for countries to build up the necessary infrastructure. As a result, the energy sector will likely undergo a transition in the coming decade or two until it is primarily dependent on renewable energy.

Exhibit 1: Energy Consumption

Primary energy consumption by fuel, world
quadrillion British thermal units



Note: 1 = Includes biofuels

Source: U.S. Energy Information Administration, International Energy Outlook 2019

Clean Energy ETFs

- Exchange-traded Funds (ETFs) allow investors to efficiently gain exposure to the clean energy theme.
 - So far year-to-date in 2021, between 17 clean energy related ETFs in the U.S., assets have essentially doubled as interest in the area continues to gain traction.³
 - Canadian investors may want to look to locally listed ETFs however:
 - U.S. listed ETFs requires the investor to exchange Canadian dollar into U.S. dollar to make the purchase. With a Canadian listed ETF, the exchange is done within the ETF by the ETF provider at an institutional rate and far more cost efficient.
 - U.S. listed ETFs may also expose Canadian investors to U.S. estate taxes over a certain threshold. Canadian listed ETFs that offer the same exposure are deemed as Canadian mutual fund trusts.

An ETF allows investors to:

- Take a top-down view: Instead of having to research individual company balance sheets and management teams, ETFs allow investors to buy a diversified basket of companies involved with that theme.
- Mitigate risk: Through diversification, ETFs allow investors to minimize the impacts of company specific risk. With clean energy being an early stage industry, technology and regulation is rapidly evolving that can impact certain companies more-so than others.
- Take a more diversified approach: Clean energy involves many different areas including solar, wind, hydro etc. An ETF allows an investor to get exposure to all these areas and different companies along the supply chain.

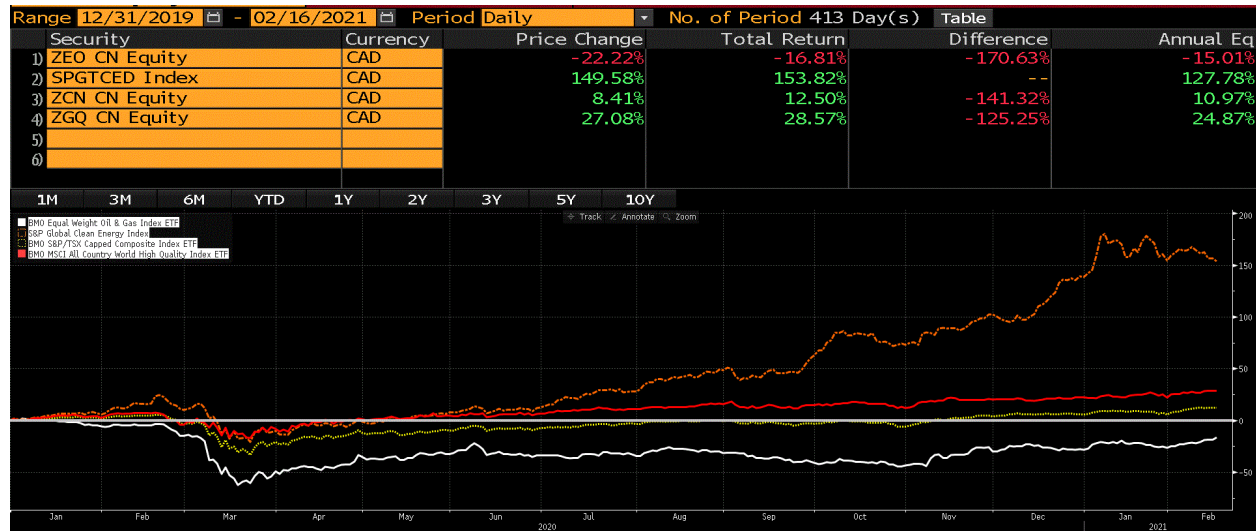
Ways to use a Clean Energy ETF:

- Stock replacement: Rather than buying an individual company, the ETF can be used by investors instead of a direct investment into a specific company
- Completion trades:
 - Many clean energy companies are not included in traditional indices, given they do not yet meet the minimum size thresholds. This means investors may miss out on early stage gains before many of these companies are eventually added to traditional benchmarks.

Pair trade ideas using the BMO Clean Energy Index ETF (ZCLN):

- **Pairing ZCLN with the BMO S&P/TSX Capped Composite Index ETF (ZCN)**
 - The Canadian market has a sizable energy representation. However, it is made up of traditional fossil fuel companies, which will still play a crucial role in providing energy. Complementing ZCN with ZCLN provides a more complete exposure to the energy space and allows investors to better position in the sector as it transitions to have more of a renewable focus.
- **Pairing ZCLN with the BMO MSCI All Country World High Quality Index ETF (ZGQ)**
 - ZGQ provides investors with a diversified portfolio of larger global blue-chip stocks. By pairing this ETF with ZCLN, it allows investors to fill in a gap as clean energy companies tend to be smaller in nature and not captured in larger cap blue chip portfolios.

Clean Energy Returns have not been captured in Large Cap or Traditional Energy ETFs



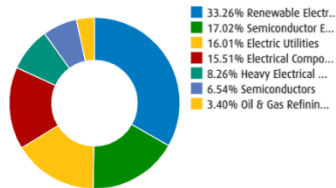
Source: Bloomberg (SPGTCED is the S&P Global Clean Energy Index). Performance from Dec 31 2019- February 16, 2021. Data as of Feb 16, 2021.

ZCLN: Holdings Breakdown

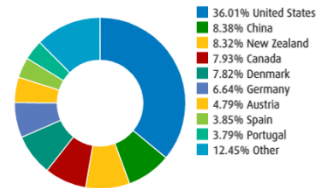
Top 10 Holdings

Weight (%)	Name
10.12%	PLUG POWER INC
5.81%	ENPHASE ENERGY INC
5.07%	DAQO NEW ENERGY CORP
4.98%	XINYI SOLAR HOLDINGS LTD
4.52%	VERBUND AG
4.50%	SIEMENS GAMESA RENEWABLE ENERGY SA
4.46%	ORMAT TECHNOLOGIES INC
4.04%	MERIDIAN ENERGY LTD
3.94%	VESTAS WIND SYSTEMS A/S

Sector Allocation



Geographic Allocation



Source BMO Global Asset Management. As of January 31, 2021

¹ S&P Global Market Intelligence, <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/biden-s-2035-carbon-free-power-goal-requires-supercharged-innovation-decade-60275901>, September 2020. ² climatecouncil.org, February 2021. ³ colimatecouncil.org, February 2021.

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